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ALLEGATION OF COST MISCHARGING BY
DEFENSE TELECOMMUNICATIONS SERVICE-WASHINGTON

Report Number 98-119

April 22 1998

Office of the Inspector General
Department of Defense

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Acronyms

DTS-W
NCR
TEMPO

Defense Telecommunications Service-Washington
National Capital Region
Telecommunications Modernization Project

April 22, 1998

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

**SUBJECT: Audit Report on Allegation of Cost Mischarging by Defense
Telecommunications Service-Washington (Report No. 98-119)**

We are providing this audit report for your information and use. We conducted the audit in response to a complaint to the Defense Hotline. Because this report contains no findings or recommendations, no written comments were required, and none were received.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Robert M. Murrell, Audit Program Director, at (703) 604-9210 (DSN 664-9210) email rmurrell@dodig.osd.mil or Ms. Judith I. Padgett, Audit Project Manager, at (703) 604-9217 (DSN 664-9217) email jipadgett@dodig.osd.mil. See Appendix B for the report distribution. The audit team members are listed inside the back cover.



David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-119
(Project No. 8CC-8001)

April 22, 1998

Allegation of Cost Mischarging by Defense Telecommunications Service-Washington

Executive Summary

Introduction. We performed this audit in response to a complaint to the Defense Hotline. The complainant alleged that Bell Atlantic was charging the DoD, through the Defense Telecommunications Service-Washington (DTS-W), for 5,000 telephone lines that the DTS-W was not showing as part of its inventory.

The DTS-W provides telecommunications equipment, facilities, and services to DoD components in the National Capital Region. It manages approximately 177,000 telephone lines and maintains a consolidated inventory of telephone lines, cell phones, pagers, calling cards, and other telecommunications products. DTS-W relies on customer reimbursements to pay vendors and operating costs. As a reimbursable operation, the DTS-W cannot incur a profit or loss.

Audit Objectives. Our primary audit objective was to determine whether DTS-W charged customers based on accurate telecommunications billing data. We also evaluated the management control program as it applied to the primary objective.

Audit Results. The allegation of cost mischarging by Bell Atlantic through DTS-W was unsubstantiated. Bell Atlantic did not bill DoD for telephone lines that did not exist. In 1995, at the request of DTS-W, the MITRE Corporation performed a study of the DTS-W proration rates and the average cost per line. The study results showed that the DTS-W inventory listed 5,000 more lines than the Bell Atlantic inventory. The inventory difference had no impact on the Bell Atlantic charges to DoD because Bell Atlantic billed DoD based on the capacity of a private telecommunications network rather than a per telephone line basis or line inventory.

The management controls we reviewed were adequate. See Appendix A for details on the management control program.

Management Comments. We provided a draft of this report on March 25, 1998. Because this report contains no recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Part I - Audit Results

Audit Background

On August 28, 1997, the Defense Hotline received a call from a confidential source alleging that Bell Atlantic billed the DoD, through the Defense Telecommunications Service-Washington (DTS-W), for telephone lines that DTS-W did not show as part of its inventory. The source alleged that a 1993 MITRE study of Bell Atlantic and DTS-W revealed a 5,000 telephone line discrepancy that continued to produce an annual overpayment of \$2 million to Bell Atlantic.

The DTS-W Mission. DTS-W provides telecommunications equipment, facilities, and services to DoD components in the National Capital Region (NCR). DTS-W manages approximately 177,000 telephone lines and maintains a consolidated inventory of telephone lines, cell phones, pagers, calling cards, and other telecommunications products.

Funding DTS-W Operations. DTS-W does not maintain a revolving fund to pay operating expenses such as salaries and data processing services, or telecommunications equipment and services. Instead, DTS-W relies on customer reimbursements to pay vendors and operating costs. As a reimbursable operation, DTS-W cannot incur a profit or loss.

The Resource Service Washington, which serves as the accounting branch for DTS-W, requests and receives reimbursement for DTS-W services. The Resource Service Washington also remits funds to the Defense Finance and Accounting Service-Indianapolis for vendor payments.

DoD Guidance for Telecommunications Service in the NCR. DoD Instruction 5335.1, "Telecommunications Service in the National Capitol Region," November 3, 1993, assigns administration and oversight of the DTS-W to the Secretary of the Army. DoD components within the NCR are responsible for designating a Telecommunications Service Control Officer. The Telecommunications Service Control Officer is responsible for monitoring, documenting, and maintaining records of telecommunications expenditures, requirements, requests, inventories, and for conducting biennial revalidations of requirements.

Audit Objectives

The primary audit objective was to determine whether DTS-W charged customers based on accurate telecommunications billing data. We also evaluated the adequacy of management controls related to the primary audit objective. See Appendix A for a discussion of the audit process, prior coverage, and the review of the management control program.

Allegation of Cost Mischarging

The allegation of cost mischarging by Bell Atlantic through DTS-W was unsubstantiated. Bell Atlantic did not bill DoD for telephone lines that did not exist. Under the Telecommunications Modernization Project (TEMPO) contract, Bell Atlantic charged DoD agencies, through DTS-W, for the capacity of the telecommunications network and not for the number of telephone lines. DTS-W maintained an inventory of each customer's telephone lines connected to the telecommunications network, and prorated common charges and DTS-W overhead costs based on that inventory. Bell Atlantic also maintained an inventory that showed the number of lines used by each DoD organization in the NCR. In 1995, at the request of DTS-W, MITRE Corporation reconciled the Bell Atlantic and the DTS-W inventories. MITRE identified 5,000 lines in the DTS-W inventory that did not appear in the Bell Atlantic inventory. That inventory difference had no impact on the Bell Atlantic charges to the DoD because Bell Atlantic did not bill charges based on a line inventory.

TEMPO Provides Service to the National Capital Region

The TEMPO contract, awarded to Bell Atlantic in November 1991, provides integrated voice and data telecommunications service to DoD organizations in the NCR. The system interconnects with the Defense Information Systems Network, Federal Telecommunications System 2000, and the domestic and international long distance telephone systems. Under the TEMPO contract, Bell Atlantic bills the DoD based on the capacity of a private telecommunications network including the hardware, software, maintenance, and service that comprise and support that network. The TEMPO contract does not provide for a per telephone line charge.

MITRE Study Compared Inventories

The hotline complainant alleged that in 1993, MITRE Corporation reviewed the accounting records for services between DTS-W and Bell Atlantic, and found that Bell Atlantic charged DoD for 5,000 telephone lines that were not on the DTS-W inventory. The hotline complainant heard about the MITRE study at a meeting, but had not read it. We contacted DTS-W personnel regarding the 1993 MITRE study. DTS-W officials were not certain about the existence of the report and referred us to the company. MITRE personnel stated that they performed engineering, billing, and other studies for DTS-W. No study was conducted in 1993 to reconcile inventories as the hotline complainant had alleged. Nevertheless, MITRE personnel identified a report issued in 1996 that discussed a discrepancy of 5,000 lines between the DTS-W and Bell Atlantic inventories. In 1995, at the request of DTS-W, MITRE Corporation personnel conducted a study of the DTS-W proration rates and the average cost per line. MITRE personnel analyzed records obtained from the DTS-W billing system for

Allegation of Cost Mischarging

the period September 1995 through August 1996. The results of the study showed that the DTS-W inventory listed 5,000 more lines than the Bell Atlantic inventory.

DTS-W Acted on MITRE Recommendations

DTS-W took corrective actions in response to the MITRE study. DTS-W corrected inventory records and adjusted proration rates to correspond to the MITRE findings. In June 1997, a contractor started to periodically reconcile the DTS-W and Bell Atlantic inventory of lines. As of November 17, 1997, the Bell Atlantic inventory showed 59 lines that the DTS-W inventory did not show. The difference could be traced to the time that each organization updated its inventory. Bell Atlantic personnel updated their inventory when technicians completed line installation or disconnection. DTS-W personnel updated their inventory when DTS-W received charges for the installation from Bell Atlantic or notification of a disconnection. Although installing a line results in a one-time charge from Bell Atlantic, the record of the line in the Bell Atlantic inventory does not result in a recurring charge.

Line Discrepancies Produced no Monetary Effect

The 5,000-line discrepancy that MITRE identified did not have a monetary effect on the DoD because Bell Atlantic billed according to the network capacity provided to DTS-W rather than the number of lines recorded on its inventory. In addition, because the 5,000 excess lines were on the DTS-W inventory rather than the Bell Atlantic inventory, the excess lines would not have resulted in charges from Bell Atlantic.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Work Performed. We reviewed the statement of work for the TEMPO contract, the MITRE study dated November 26, 1996, DTS-W billing records and other documentation. We interviewed DTS-W and Defense Supply Service-Washington personnel to understand how DTS-W served and charged its customers for telecommunications services under the TEMPO contract. We also interviewed DTS-W customers and contractors. We restricted our work to base communications in the NCR.

Computer-Processed Data. We did not assess the reliability of the computer-processed billing data. We were able to use other documentation to determine whether the allegation was substantiated. We did not use statistical sampling procedures for this audit.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD and contractors that provided services to DTS-W. Further details are available upon request.

Audit Types, Dates, and Standards. We performed this economy and efficiency audit from October 1997 through January 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Prior Coverage

Inspector General, DoD, Evaluation Report No. 96-174, "Defense Telecommunications Service, Washington," June 24, 1996. The report states that the telecommunications support missions of DTS-W and the Single Agency Manager for Pentagon Information Technology Services overlapped. The report also states that the DTS-W proposal for a new archive billing system was not cost-effective and customer service was not effective. The report recommended that the Army perform a cost-benefit analysis to determine the most efficient and effective way to manage telecommunications support services within the NCR. The report also recommended that DTS-W:

- o stop actions to procure a new archive system (electronic optical disk imaging system),
- o develop a customer service program,

- o train managers to improve communications with DoD Component customers, and

- o emphasize management controls over billing and accounting processes, and unliquidated obligations reviews and reconciliations.

DTS-W management concurred with the recommendations.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of DTS-W management controls over the billing process. DTS-W did not identify the billing process as an assessable unit. Instead, DTS-W assessed the billing process along with a number of other administrative functions under the category of general management controls. In FY 1997, the Army inspectors conducted a survey on DTS-W. The report did not disclose management control weaknesses related to the billing process. DTS-W personnel did not perform a self-evaluation of management controls in FY 1997. DTS-W personnel stated that they performed a management self-evaluation only when an outside inspection or audit reports identified DTS-W material management control weaknesses. This policy is prudent only if there is regular and comprehensive audit and inspection coverage of DTS-W. Otherwise, it would be advisable for accountable DTS-W officials to be more proactive in self-assessing their controls.

Adequacy of Management Controls. The DTS-W management controls that we reviewed were adequate.

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House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

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